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FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

Audit reports

Report of the Administrator

SUMMARY

The present document contains the comments of the Administrator concerning the report of the United Nations Board of Auditors for the biennium ending 31 December 1991. In particular, it provides further information on follow-up action taken in response to Governing Council decision 92/38 of 26 May 1992 and General Assembly resolution 47/211 of 22 December 1992, as well as a timetable of action on recommendations of the Board of Auditors, as called for in paragraph 10 of the General Assembly resolution.

Document DP/1993/48 summarizes the action taken by the executing agencies in response to the significant observations of their external auditors on their 1991 accounts relating to funds allocated to them by the United Nations Development Programme. Document DP/1992/48/Add.1 contains the audited reports of the executing agencies as at 31 December 1991.

INTRODUCTION

1. In accordance with previous Governing Council decisions and General Assembly resolution 47/211 of 22 December 1992, the Administrator is bringing to the attention of the Council the report of the Board of Auditors on the United Nations Development Programme (A/47/5/Add.1), the report of the Advisory Committee on Administrative and Budgetary Questions (ACABQ) thereon (A/47/500) and the related comments made in the Fifth Committee.

2. The external audit reports and audited accounts of executing agencies relating to funds allocated to them by UNDP as at 31 December 1991, submitted in accordance with regulation 17.1 of the UNDP Financial Regulations, are contained in document DP/1993/48/Add.1, together with a summary of the status of funds submitted by all executing agencies as at 31 December 1991. Document DP/1993/48 summarizes significant observations of the external auditors of the executing agencies on their 1991 accounts relating to funds allocated to them by UNDP.

I. UNITED NATIONS DEVELOPMENT PROGRAMME

3. The Administration provided a detailed written response to all the observations made by the United Nations Board of Auditors. A summary of those comments are included in the report of the Board of Auditors.

4. The report of the Board of Auditors was very comprehensive. Owing to the length of the audit report and the extensive response by the Administration, including those provided to the Fifth Committee, no attempt will be made in the present document to summarize their contents. The document does contain, however, in tabular format, the summary of recommendations of the Board of Auditors (from para. 7 of document A/47/5/Add.1), a synopsis of the Administration's response to the Auditors and the Fifth Committee on each recommendation, and the current status of action taken or planned to be taken by the Administration, as called for in paragraph 10 of General Assembly resolution 47/211. In this regard, the Administration is pleased to note that the General Assembly acknowledged, in paragraph 11 of its resolution 47/211, the initiatives taken and progress made by UNDP in following up external audit findings and recommendations. The present document does not reflect other comments or discussions of the Fifth Committee in that in its resolution 47/211 the General Assembly broadly endorsed all recommendations and conclusions of the Board of Auditors and the comments thereon contained in the ACABQ report. Information on further follow-up actions taken which may be available by June 1993 will be reported orally to the Governing Council at its fortieth session.

5. In its resolution 47/211, the General Assembly requested the executive heads of United Nations organizations and programmes to: submit an action-oriented report, to the General Assembly at its forty-eighth session, outlining steps to be taken in response to the recommendations of the Board, including timetables for their implementation; ensure that all existing financial and staff regulations and rules are strictly complied with, including those relating to internal control over expenditure and those which assign personal responsibility and accountability in their performance; report to the

General Assembly at its forty-ninth session on measures taken to strengthen internal controls in those areas where weaknesses have been identified; take urgent steps to strengthen the independence and effectiveness of the internal audit function; strengthen measures to ensure an adequate response to internal audit findings; and accelerate efforts to develop common accounting standards for the organizations of the United Nations system and to take these standards into account in the preparation of their financial statements for the period ending 31 December 1993.

6. The Administrator's response to the need for action by executive heads on observations of the Board of Auditors was provided by the Assistant Administrator, Bureau for Finance and Administration to the Fifth Committee at the forty-seventh session of the General Assembly. He stated that UNDP had taken a pro-active approach in dealing with the important policy and procedural issues raised and had taken concrete follow-up actions on the recommendations of the Board of Auditors. He indicated that UNDP had developed an action-oriented work programme with targets and specific responsibilities for follow-up action to external audit observations. He also added that UNDP had put in place a number of important initiatives, with the approval of the Governing Council, that should help to strengthen its field capacity, improve monitoring, management and reporting, and enhance accountability in the coming months and years. With respect to the issue of stricter adherence to financial and staff rules and regulations, particularly those relating to consultants' contracts, the Assistant Administrator informed the Fifth Committee that revised guidelines were to be put in place, confirming the applicability of Financial Rule 114.21, clarifying the delegated authorities and establishing the necessary reporting and accountability mechanisms. The Administration has since issued a further circular to all staff bringing their attention to the General Assembly request for strict adherence and referring all staff to their personal responsibilities and implications for financial liability, in line with the circular issued to all staff on 30 August 1990 and reported to the Governing Council in document DP/1992/41.

7. All other issues raised by the General Assembly in its resolution 47/211 are dealt with in the summary table contained in the present document.

EXTERNAL AUDIT FOLLOW-UP ACTIONS AND TIMETABLE

Status as of 25 March, 1993

Board of Auditors recommendations	Para. ref	UNDP response to Fifth Committee and External Auditors	Remarks/ Proposed steps	Status and target date
Board of Auditors recommendations				
1 Office automation efforts should be planned carefully and coordinated from the beginning of a project.	7,137,142	Agree. Much progress has been made: Each headquarters and field office is now required to develop and update annually an office automation plan which includes a cost-benefit analysis in accordance with recently issued standards and guidelines.	Process will continue to be monitored, as part of normal operations, to ensure ongoing compliance.	Completed
2 Pertinent instructions for the hiring of consultants should be observed.	7,146,149, 154, 158,161	UNDP applies the standing instructions very strictly, with exceptions authorized only for very special circumstances and even then, specifically, on the approval of the Administrator. In 1992 there were 11 such cases.	The Division of Personnel will be re-issuing instructions, in April 1993, to all Managers to ensure strict adherence to established rules and procedures.	Ongoing 1 April 1993

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Source: Board of Auditors Report, 47th G.A., A/47/5/Add.1

	Board of Auditors recommendations	Para ref	UNDP response to Fifth Committee and External Auditors	Remarks/ Proposed steps	Status and target date
3	Decisions on personnel matters should be adequately accounted for by documentation and justified by the relevant instructions.	7,179	Agree. Corrective actions have been taken, and measures/ mechanisms put in place to ensure strict adherence to the relevant instructions as well as proper documentation and justification.	The Division of Personnel has implemented mechanisms to ensure that proper justification, monitoring and documentation is now standard practice.	Completed
4	Problem of timely and proper financial completion of UNCDF projects should be systematically addressed on a broad scale.	7,231,232	Agree . Notwithstanding the efforts under way and acknowledged by the auditors, this will be taken up on a broader scale in the context of deliberations on national execution policy, procedures and processes.	A circular is to be issued in March 1993 to all UNCDF staff to bring their attention to this. UNDCF senior management staff will continue to monitor proper adherence to this instruction.	Ongoing 1 March 1993
5	Measures should be taken to establish adequate property control, including accountability.	7,27,114, 119,130, 134	UNDP recognized the problems and the need to take corrective actions. A complete review of policies and procedures is under way. New measures are expected to be introduced in the near future, with accountability mechanisms.	A total quality team has been established and is currently working together with end users, on the requirements and design of a functional inventory system.	Ongoing 30 June 1993

Source: Board of Auditors Report, 47th G.A., A/47/5/Add.1

	Board of Auditors recommendations	Para ref	UNDP response to Fifth Committee and External Auditors	Remarks/ Proposed steps	Status and target date
6	Actual costs for management services should be established on a factual basis .	7,46,181 to 186	OPS disagrees that the level of fees are low. The level reflects actual administrative and management service costs. The fees cannot be compared to those related to AOS. New guidelines will be issued by end 1992 reflecting use of OPS service unit cost.	The new guidelines were issued on 30 December 1992.	Completed
7	Project appraisal and approval procedures should be streamlined considerably.	7,48,192 to 199	The Management Board took the decision to streamline and decentralize the process, while ensuring appropriate accountability mechanisms. At the same time, the effectiveness of headquarters processes is under review.	The procedures and guidelines related to the decision of the Management Board are being worked out based on a conceptual framework developed by the Bureau for Policy, Programmes and Evaluation . It is expected that the Regional Bureaux will be in a position to implement the new guidelines, with increased approval and appraisal authorities to the field offices, by the end of 1993. Notwithstanding this, the Regional Bureaux have conveyed the Management Board decision to field staff.	Ongoing 31 December 1993
8	In-depth evaluations should be used more effectively.	7,49 to 52, 202 to 209	Concur with the auditors that there are some instances where exceptions may be made for evaluation requirements, if adequately justified. In line with the PPM, such justification should be ex-ante, transparent and adequate.	The Regional Bureaux have confirmed that corrective actions are being taken to ensure that in-depth evaluations need not be scheduled when the nature of specific projects does not so warrant. A circular will be issued to all field offices in March 1993.	Ongoing 1 March 1993

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Source: Board of Auditors Report, 47th G.A., A/47/5/Add.1

	Board of Auditors recommendations	Para ref	UNDP response to Fifth Committee and External Auditors	Remarks/ Proposed steps	Status and target date
9	Internal audit mandate should be revised to provide an adequate legal basis.	7,54,213 to 214	UNDP took immediate action to present changes to its financial regulations and rules. These were approved by Governing Council decision 92/36 and the changes have already been reflected.	No further action required.	Completed
10	The Division for Audit and Management Review should not have operational responsibilities.	7,55,215 to 219	This refers to the accountability of Governments under the modality of national execution, and the coordination and issuance of manuals. UNDP has initiated a review of these functions with a view to confirming that the current arrangements do not involve any conflict of interest.	Initial review indicates that no conflict of interest exists. However, this will continue to be monitored as part of the regular work programme of the Division for Audit and Management Review.	Completed
11	Improve audit coverage.	7,56,220 to 222	UNDP agreed that, because of staffing/ resource constraints, audit coverage was less than desired. Cost -effective remedial measures have been included as part of the pilot scheme initiating a regional service centre in 1992.	The first regional service centre was established in late 1992 in Malaysia, covering the Asia and Pacific region. As an integral part of the centre, auditors and audit firms are being identified to perform audits in the region. Based on experience gained in this pilot exercise, similar coverage will be extended to other regions. This should significantly help to increase audit coverage of UNDP activities in the most economical way.	Ongoing 31 December 1993

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Source: Board of Auditors Report, 47th G.A., A/47/5/Add.1

Board of Auditors recommendations		Para ref	UNDP response to Fifth Committee and External Auditors	Remarks/ Proposed steps	Status and target date
12	Efforts should be made to obtain timely audited statements from executing agencies.	7,9,63 to 66, Annex II, paras 1 to 3	This arises because of the short time frame between closure of accounts and the date audit certificates are required . UNDP continues to raise this issue in CCAQ (FB) to improve timeliness of reporting. However, as noted by the auditors, in effect, this does not appear to be a problem and accounts are properly reflected.	No further action required at this stage.	System wide
Past recommendations: Annex to BOA report					
13	The need to finalize pending standard basic executing agency agreements with FAO, WHO and ILO.	Annex I, paras. 1 to 3	The standard basic executing agency agreement with WHO has been signed. Agreement with ILO expected by end November 1992. Negotiations are ongoing with FAO with a view to reaching agreement on a number of issues by the end of 1992.	Both the ILO and FAO agreements have now been agreed upon. Final formal signatures are expected to be completed by March 1993.	Completed 1 March 1993

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Source: Board of Auditors Report, 47th G.A., A/47/5/Add.1

	Board of Auditors recommendations	Para ref	UNDP response to Fifth Committee and External Auditors	Remarks/ Proposed steps	Status and target date
14	The number of projects to be executed should be strictly controlled so as not to exceed the management capacity of the Office of Project Services (OPS).	Annex I, paras. 10 to 17	Since 1991 a number of measures have been taken to increase operational efficiency. Combined with increased staffing approved in May 1992 this has resulted in a drop in the average Project Management Officer's portfolio from 41 to 32.	Further decrease in the average number of projects per PMO reflects the efficiency gains of the various measures undertaken by OPS in 1991 and 1992 respectively. The average portfolio is now 30 projects per PMO. In addition, Division Chiefs no longer manage projects and are, therefore, able to devote their full time to Division management.	Completed
15	New development initiatives should be tested for a trial period and only fully implemented after the test is evaluated (This refers to the Economists Programme in Africa.).	Annex I, paras. 18 to 20	A final report of an evaluation of this programme is expected in November 1992. Once UNDP has reviewed this it will be in a position to respond and implement required corrective actions accordingly.	The recommendations of the evaluation report are being reviewed by senior management. The main findings, in summary are: (a) the programme is fully justified and should be expanded to non-LDCs; (b) there should be one economist per country; (c) the programme should be integrated into UNDP activities; (d) UNDP should improve understanding with other multilateral agencies of this programme, such as IMF/World Bank, AfDB and ECA; (e) the work programme should be prepared by Resident Representatives.	Ongoing 1 June 1993
16	Budget management and completion of projects executed by the Office of Projects Services needed to be improved considerably.	Annex I, paras. 21 to 24	629 projects were either operationally or financially completed in the first nine months of 1992. As at September 1992, 277 budgets out of 1646 showed over -expenditures more than $1000. These were mostly within limits allowable by the guidelines. The new OPS information system, which should be in place by end 1993, will also help improve project budget management.	During 1992, semi-final or final budget revisions were processed for a total of 716 projects. Continuous efforts will be maintained, as part of the normal work programme, to ensure that this is kept closely monitored.	Ongoing 31 December 1993

Source: Board of Auditors Report, 47th G.A., A/47/5/Add.1

	Board of Auditors recommendations	Para ref	UNDP response to Fifth Committee and External Auditors	Remarks/ Proposed steps	Status and target date
17	The practice of retroactive signing of consultancy contracts in the Office of Projects Services should be discontinued : uncompromising efforts needed.	Annex I, paras. 25 to 27	Following internal instructions issued to all staff, the number of post-facto contracts declined drastically. Between July 1 1991 and 30 September 1992 there were only 19 such cases, which were approved only after very careful and thorough review, with full written justification.	Continuous close monitoring is maintained by both OPS and the Chief Procurement Officer. Mechanisms have been established , in both OPS and the Bureau for Finance and Administration, to ensure proper accountability and necessary checks and balances. Furthermore, the post-facto cases in 1993 will be closely monitored and reviewed by the Chief Procurement Officer in January 1994 to identify where further improvements in process, procedures, accountability and reporting might be made.	Ongoing 31 January 1994
18	OPS should provide management services only on a sound legal basis with both funding donor and recipient countries.	Annex I, paras. 28 to 30	OPS continues to believe that adequate legal arrangements do exist within established MSA procedures and confirms that no loss has ever occurred under this arrangement nor is it likely to do so in the future.	As indicated to the auditors, their remark referred to one specific donor, with whom it was not necessary to establish any legal contractual agreement since the Management Service Agreements are not between the donor and UNDP but rather between UNDP and the recipient country , for whom OPS provides the services. As such, no further action is required.	Completed
19	OPS should use its authority more consistently to delegate procurement activities: actual development will have to be observed.	Annex I, paras. 31 to 33	The appropriate delegation of authority to the field was issued in April 1992.	No futher action required.	Completed

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Source: Board of Auditors Report, 47th G.A., A/47/5/Add.1

	Board of Auditors recommendations	Para ref	UNDP response to Fifth Committee and External Auditors	Remarks/ Proposed steps	Status and target date
20	Amendments should be made to the Standard Basic Executing Agency Agreement to include assessment of efficiency and all audit findings.	Annex I, paras. 4 to 9	This matter has been drawn to the attention of the agencies. CCAQ(FB) has indicated that members are reluctant to pursue the matter further. ACABQ has recommended that the Panel of Auditors should review this and report to the General Assembly. UNDP awaits outcome of this review.	At the request of CCAQ (FB), the Panel of Auditors reviewed the question of the nature and scope of information submitted to the UNDP external auditors by the external auditors of the executing agencies. As a result of its discussions, the Panel issued an audit guideline which defines procedures, documentation, cooperation and reporting considerations. No further UNDP action is, therefore, required.	Completed
21	Aspect of general deterrence in prevention of fraud needs more attention.	Annex II, paras. 10 to 12	As previously reported, UNDP issued circulars and established an ad hoc committee on financial liability. Following its deliberations of a few cases, corrective action was called for and action taken accordingly.	No further action required. This issue remains under constant review and scrutiny by the Chief Financial Controller, as part of the Bureau for Finance and Administration's regular work programme.	Completed
22	Before establishing new or sub trust funds, the impact on administrative workload should be assessed.	Annex II, paras. 13 to 15	All trust or sub-trust funds continue to be accepted only on the basis of assured funding and covering all administrative costs.	UNDP continues to believe that the incremental workload related to trust funds is adequately covered by the extrabudgetary funds provided. The systems reprogramming necessitated by the successor arrangements for support costs has been defined, including requirements for trust funds and management services. The new system is now scheduled for implementation later in 1993.	Ongoing 1 October 1993

Source: Board of Auditors Report, 47th G.A., A/47/5/Add.1

	Board of Auditors recommendations	Para ref	UNDP response to Fifth Committee and External Auditors	Remarks/ Proposed steps	Status and target date
23	An up-to-date strategy for temporary employment needed to be developed: existing rules should be complied with.	Annex II, paras. 16 to 18	In line with Governing Council decision 92/37, UNDP has commenced preparations of the design of the new contractual arrangement. UNDP will also be reporting to the Governing Council in 1993 and a comprehensive report in 1994 on the experience gained.	Implementation of the new form of contract is expected in July 1993.	Ongoing 1 July 1993
24	Guidelines should be issued clearly delineating between programme and operating expenditure.	Annex II, paras. 4 to 6	UNDP established clearer delineation with its proposal of the PSDA category which was approved by the Governing Council in decision 91/46. UNDP will be reporting further to the Council in June 1993 in response to the request by the Council for specific criteria for the allocation of posts to the PSDA line.	This issue is being addressed by the 1994-1995 budget strategy, as contained in Governing Council document DP/1993/45 on revised budget estimates for 1992-1993 and budget estimates for 1994-1995.	Ongoing 1 June 1993
25	Detailed instructions are needed to inform all personnel of responsibility and financial liability: implementation/ enforcement needed.	Annex II, paras. 7 to 9	As reported in DP/1992/41, this has been implemented.	No further action required.	Completed

Source: Board of Auditors Report, 47th G.A., A/47/5/Add.1